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PACIFIC TELESIS
Group - Washington

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October 21, 1993

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: *CC Docket No. 93-197 - Revisions to Price Cap Rules for AT&T*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of their "*Reply Comments*" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

Jo Ann Goddard

Enclosures

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OCT 21 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Revisions to Price Cap Rules for AT&T	)	CC Docket No. 93-197
	)	

REPLY COMMENTS OF PACIFIC BELL AND NEVADA BELL

Pacific Bell and Nevada Bell (the "Pacific Companies") hereby respond to selected issues raised in the Comments in the above-captioned proceeding.[1]

AT&T contends the market for services in Basket 1 are so competitive that it is not only reasonable to move Option Calling Plan services ("OCPs") from Basket 1[2] and to streamlined regulation but there is also no basis for continuing to impose a productivity factor for the remaining Basket 1 services.[3] AT&T also seeks a permanent waiver of the price cap rules for "Commercial Long Distance Services" again citing effective competition.[4]

AT&T's contention with respect to the competition its services face is not borne out by the evidence. The three facilities-based carriers, AT&T, MCI, and Sprint, that operate

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1 In the Matter of Revisions to Price Cap Rules for AT&T, CC Docket No. 93-197, Notice of Proposed Rulemaking, released July 23, 1993.

2 Comments of AT&T, pp. 3-4.

3 Id. at p. 7.

4 Id. at p. 22.

nationwide have earned a combined share of over 87 percent of revenues in the interLATA market as of 1991.[5] AT&T's share stood at about 61 percent of revenues,[6] and about 60 percent of toll minutes.[7]

The long distance market has the characteristics of an oligopoly rather than a truly competitive market. This was recently demonstrated by a price increase by the three major interexchange carriers. On July 19, 1993, AT&T announced that it would increase business rates by an average of 3.9 percent and residential rates by an average of 1 percent.[8] A variety of telecommunications industry watchers immediately forecast increases by the other two major long-distance companies. For example, Craig Ellis, analyst at Wheat, First Securities in Richmond, Virginia, said, "[t]he betting is that other phone companies will follow suit now that the umbrella has been raised by the market dominator."[9] As an indicator of investor sentiment, shares of all three companies rose on the day of AT&T's announcement.[10] True to predictions, four days after the AT&T filing, MCI proposed rate increases of 3.8 to 4.1 percent;

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[5] Industry Analysis Div., FCC, Long Distance Market Shares: Fourth Quarter 1992, at Table 6 (1993).

[6] Ibid.

[7] Id. at Table 3.

[8] A. Zitner, AT&T Seeks Hike in Rates, Boston Globe, July 20, 1993 at 1.

[9] C. Lazzareschi, AT&T Rate Hike Takes Aim at Businesses, Los Angeles Times, July 20, 1993, at D1.

[10] A. Zitner, AT&T Seeks a Hike in Rates, Boston Globe, July 20, 1993, at 1.

Sprint followed with filed increases of 3.8 to 4.7 percent one week later.[11]

How did the analysts know that MCI and Sprint would follow suit, rather than maintaining or even dropping prices to gain market share? Because they know that the long distance market is an oligopoly and not price competitive. The July 19 price hike was, in fact, just the latest in a series of lock-step price increases by the big three long distance carriers. See Figure 1.

Despite steadily decreasing access charges, the long distance carriers have raised prices no fewer than four times in the past three years. On each occasion, AT&T led the way, and the other two followed. There seems, in fact, to be a not-so-tacit understanding among the three carriers that they will raise prices in unison and avoid price competition at all costs. For example, in July 1990, after the first in this series of price hikes, an MCI spokesman expressly stated that MCI would match any future AT&T rate increases.[12] With respect to the most recent rise in prices, AT&T spokesman Mark Siegel stated: "We have no reason to think [the price hike] won't hold. It's routine. We do it all the time. We've raised prices six times in the past five years and they've all held."[13] A senior vice

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[11] R. Gareiss, Rate Hikes: MCI, Sprint Follow AT&T's Lead, Communications Week, Aug. 9, 1993, at 60.

[12] *See* B. Wallace, MCI Responds to AT&T Rate Hike with Increases, Network World, July 30, 1990, at 14.

[13] D. Dorfman, Pro Hears Static on Long Distance, USA Today, Aug. 2, 1993, at 2B.

president of MCI added: "We move prices in lock step."[14] MCI issued a statement that "competition has moved away from price. We think there is price stability in the industry now."[15] Sprint likewise announced that "customers are looking for more than price * * *. Sprint's approach is to differentiate itself through product and service offerings, not merely price."[16]

Additional evidence of the lack of competition in the interexchange market is that although annual access charges paid by AT&T fell by $10.13 billion between 1984 and 1992, AT&T was able to retain $2 billion in reductions, passing on $8.22 billion in annual price reductions to its customers.[17] Even the Commission has concluded in the past that "[t]he single force most responsible for driving down long distance over the last several years has been [not price competition but] the reduction of access charges long distance carriers pay to local exchange carriers."[18]

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[14] See C. Skrzycki, 'Baby Bells' Dangle Promise of Lower Rates in Push for Long-Distance Service, Washington Post, July 22, 1993, at D9. The MCI spokesman went on to add, "but we move prices down," but that claim is belied by the evidence.

[15] See C. Lazzareschi, AT&T Rate Hikes Takes Aim at Businesses, Los Angeles Times, July 20, 1993, at D1.

[16] A Zitner, AT&T Seeks a Hike in Rates, Boston Globe, July 20, 1993, at 1.

[17] Taylor, NERA, Effects of Competitive Entry in the US Interstate Toll Markets: An Update, at Table 1 (May 28, 1992).

[18] Policy and Rules Concerning Rates for Dominant Carriers, 4 FCC Rcd 2873, 3054 (1989).

Under the current regulatory structure, a truly competitive market will not emerge.[19] Consequently there is no reason to further relax the price cap rules with respect to AT&T at this time. As the D.C. Circuit has stressed, "[f]reedom of entry is the single most important guarantor of competition in a concentrated industry." United States v. FCC, 652 F.2d 72, 106 (1980). The FCC should only consider relaxed regulation of AT&T when artificial barriers to entry into the interexchange market are removed and the industry truly responds to customer price requirements, not to changes in the price leader's price.

Respectfully submitted,

PACIFIC BELL
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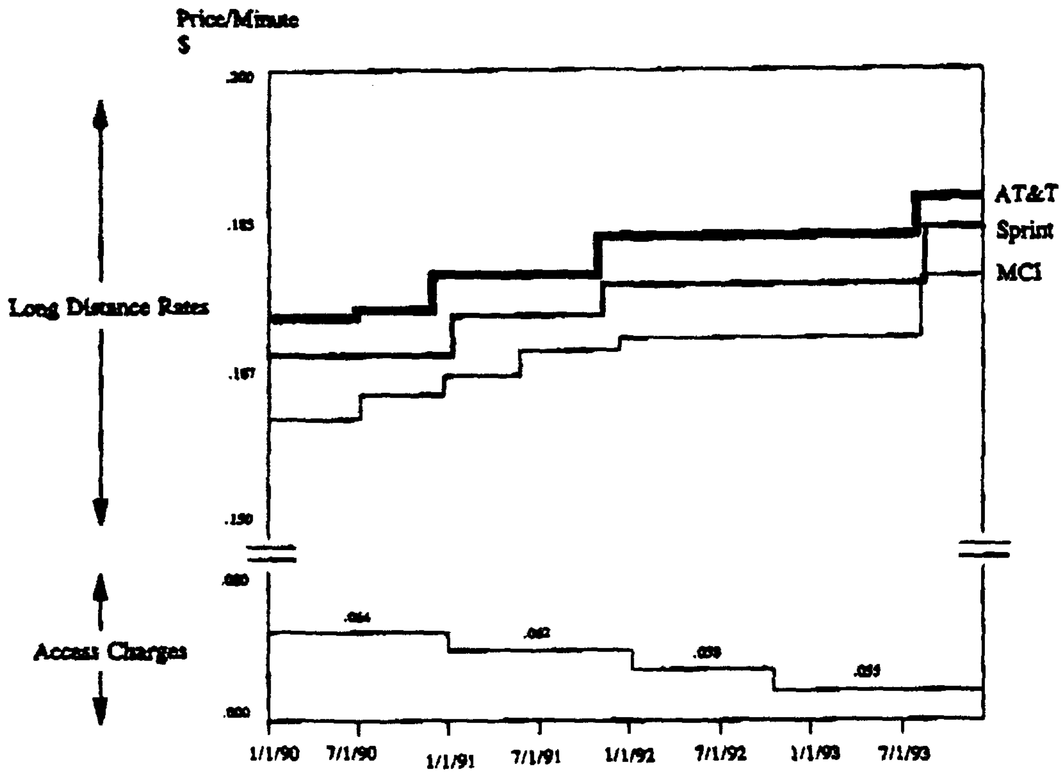
[19] We will present additional information on competition in the interexchange market in the proceeding regarding reclassification of AT&T as a non-dominant carrier, CC Docket No. 79-253.

Figure 1. Trends in Long Distance Rates and Exchange Access Charges.[1]



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[1]WEFA Group, Economic Impact of Eliminating The Line-of Business Restrictions on the Bell Companies (July 1993); Robin Gareiss, Rate Hikes: MCI, Spring Follow AT&T's Lead, Communications Week, August 9, 1993, at 60. With the exception of the most recent rate increase, long distance rates are based on the average price per minute for basic service. For the most recent rate increase, MCI and Sprint rates are estimated as the average of their stated range of rate increases. AT&T rates are estimated as the average of its proposed business rate increase and its smaller proposed residential rate increase--a conservative estimate, considering that more revenue comes from business customers than from residential customers.

CERTIFICATE OF SERVICE

I, C. A. Peters, hereby certify that copies of the foregoing "REPLY COMMENTS OF PACIFIC BELL" re CC Dkt. 93-197, were served by hand or by first-class United States mail, postage prepaid, upon the parties appearing on the attached service list this 21st day of October, 1993.

By: CAPeters
C. A. Peters

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